

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

BFN 2114 – INVESTMENT
(ALL SECTIONS)

5 MARCH 2016
9.00 A.M. - 11.00 A.M.
(2 HOURS)

INSTRUCTIONS TO STUDENTS

1. This questions paper consists of 6 pages with **TWO** sections.
2. Answer **ALL** questions in **Sections A and B**. The marks for each section are given in the question paper.
3. Please write your answers for Section A and B in the answer booklet.

**SECTION A (40 marks): Answer ALL questions. Choose the best answer.
Each question carries 2 marks.**

- Q1. In a value weighted index
- a. Exchange rate fluctuations have a large impact.
 - b. Exchange rate fluctuations have a small impact.
 - c. Small companies have an exaggerated effect on the index.
 - d. Large companies have a disproportionate influence on the index.
 - e. None of the above
- Q2. In a price weighted average stock market indicator series, the following type of stock has the greatest influence
- a. The stock with the highest price
 - b. The stock with the lowest price
 - c. The stock with the highest market capitalization
 - d. The stock with the lowest market capitalization
 - e. The stock with the highest P/E ratio
- Q3. What effect does a stock substitution or stock split have on a price-weighted series?
- a. Index remains the same, divisor will increase/decrease.
 - b. Divisor remains the same, index will increase/decrease.
 - c. Index and divisor will both remain the same.
 - d. Index and divisor will both reflect the changes (immediately).
 - e. Not enough information is provided.
- Q4. Which of the following would be inconsistent with an efficient market?
- a. Information arrives randomly and independently.
 - b. Stock prices adjust rapidly to new information.
 - c. Price changes are independent.
 - d. Price changes are random.
 - e. Price adjustments are biased.

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- Q5. A portfolio manager without superior analytical skills should
- Determine and quantify the risk preferences of a client.
 - Minimize transaction costs.
 - Maintain the specified risk level.
 - Ensure that the portfolio is completely diversified.
 - All of the above.
- Q6. Confirmation bias refers to the situation where
- Investors have a propensity to sell winners too soon and hang on to losers too long.
 - Investors ignore bad news and overemphasize good news.
 - Investors tend to follow the herd.
 - Investors put more money into a failure rather than into a success.
 - Investors are all noise traders.
- Q7. Studies of the relationship between P/E ratios and stock returns have found that
- Low P/E stocks of large cap stocks outperformed low P/E stocks of small cap stocks.
 - Low P/E stocks of small cap stocks outperformed high P/E stocks of large cap stocks.
 - High P/E stocks of large cap stocks outperformed low P/E stocks of small cap stocks.
 - High P/E stocks of large cap stocks outperformed high P/E stocks of small cap stocks.
 - none of the above.
- Q8. In an efficient market all securities should have:
- Equal returns for the same time period
 - Equal risk-adjusted returns
 - Equal inflation-adjusted returns
 - All of the above
 - None of the above

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- Q9. The implication of efficient capital markets and a lack of superior analysts have led to the introduction of
- a. Balanced funds.
 - b. Naive funds.
 - c. January funds.
 - d. Index funds.
 - e. Futures options.
- Q10. Which of the following is **not** a consideration in the three-step valuation process?
- a. Analysis of alternative economies
 - b. Analysis of security markets
 - c. Analysis of alternative industries
 - d. Analysis of individual companies
 - e. None of the above (that is, all are considerations in the three-step valuation process)
- Q11. If interest rates increase due to inflation, but expected cash flows to a firm do not change, then you would expect stock prices to
- a. Rise.
 - b. Rise and then decline.
 - c. Remain unchanged.
 - d. Decline.
 - e. None of the above.
- Q12. What might cause an industry's sales to decline?
- a. Changes in consumer tastes
 - b. Product obsolescence
 - c. Growth of substitute products
 - d. Sluggish economic growth
 - e. All of the above
- Q13. The growth rate will *most likely* increase if the:
- a. Retention ratio decreases
 - b. Payout ratio decreases
 - c. Return on equity decreases
 - d. Net income increases
 - e. Both a and c

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- Q14. At the initial stage of an economic recovery,
- a. Financial stocks rise on expectations of increases in loan demand, housing constructions and security offerings.
 - b. Consumer durable stocks rise on expectations of rising consumer confidence and personal income.
 - c. Capital goods stocks rise on expectation of increases in business capital spending.
 - d. Basic materials stocks rise on expectation of rising profit margins.
 - e. Consumer staple stocks rise on expectations that consumers will continue to spend on necessities.
- Q15. Which of the following are **not** typically considered a threat of new entrants to an industry?
- a. Low current prices relative to costs
 - b. Large capital requirements
 - c. Extensive distribution channels with exclusive distribution contracts
 - d. Government policy restricting access to raw materials
 - e. Large volume purchases relative to the sales of a supplier
- Q16. A growth company can invest in projects that generate a return greater than the firm's
- a. Return on equity.
 - b. Cost of debt.
 - c. Cost of equity.
 - d. Cost of capital.
 - e. Return on assets.
- Q17. Which of the following statements concerning global company analysis is **false**?
- a. Analysis of companies within industries should be extended to include foreign companies.
 - b. There is a problem in obtaining data that is required for a thorough company analysis of foreign companies.
 - c. Foreign companies' financial risk should be evaluated over time.
 - d. Differences in relative measures can be explained by the variations in accounting procedures among countries and investors attitudes within each country.
 - e. None of the above (that is, all statements are true)

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- Q18. Which of the following is **not** considered an assumption of technical analysis?
- a. Market value is determined solely by supply and demand.
 - b. Supply and demand are governed by both rational and irrational factors.
 - c. Stock prices follow a random walk.
 - d. Security prices tend to move in trends that persist for an appreciable length of time.
 - e. Changes in trend are caused by the shifts in supply and demand relationships.
- Q19. For technical trading rules to generate returns that are superior to a buy-and-hold strategy, net of transaction costs, the market would have to be
- a. Rising.
 - b. Falling.
 - c. Inefficient.
 - d. Overvalued.
 - e. Undervalued.
- Q20. Yifuin Beauty Berhad currently earns RM3.00 per share and currently pays RM1.20 per share in dividends. It is expected to have a constant growth rate of 7 percent per year. The required rate of return is 14 percent. What is the intrinsic value of this stock?
- a. RM42.86
 - b. RM17.14
 - c. RM7.14
 - d. RM18.34
 - e. RM3.00

SECTION B (60 marks): Answer ALL questions.

Question 1

- (a) Demonstrate buy or sell signals of any one (1) of the popular technical trading rules that used by investors. Show them in a graph form and label the graph. **(5 marks)**
- (b) If the efficient market hypothesis is true, you are required to discuss three main implications for investors. **(15 marks)**

(Total: 20 marks)

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Question 2

- (a) You expect the risk-free rate (RFR) to be 5 percent and the market return to be 9 percent. You also have the following information about these two stocks, namely Smart Berhad and Genius Berhad. You are required to perform the following computations and make correct investment decision.

Stock	Beta	Current Price (RM)	Expected Price (RM)	Expected Dividend (RM)
Smart Berhad	1.5	22	23	0.75
Genius Berhad	0.5	40	43	1.50

- (i) What are the expected (required) rates of return for the two stocks? (5 marks)
- (ii) What are the estimated rates of return for the two stocks? (5 marks)
- (iii) What is your investment strategy concerning the two stocks? (5 marks)
- (b) Briefly explain leading indicator of economic activity. Give one example of it. (5 marks)
- (Total: 20 marks)

Question 3

- (a) You are asked by an analyst who wishes to estimate the share price for Alpha Berhad. The following information is made available:

Estimated profit margin = 15%
 Total asset turnover = 2
 Financial leverage = 1.2
 Estimated dividend payout ratio = 75%
 Required rate of return = 14%
 Estimated earnings per share (EPS) = RM1.50

You are required to compute the following:

- (i) The firm's return on equity (ROE)? (3 marks)
- (ii) The firm's sustainable growth rate? (3 marks)
- (iii) The price-earnings (P/E) multiple (4 marks)
- (iv) The share price? (4 marks)
- (b) Broadly speaking, how does stage 4 differ from stage 5 in an industrial life cycle? (6 marks)
- (Total: 20 marks)

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